

**Tennessee Board of Regents
Volunteer State Community College**

**For the Years Ended
June 30, 2002, and June 30, 2001**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

June 10, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Dr. Warren Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 2002, and June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
03/040

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Volunteer State Community College
For the Years Ended June 30, 2002, and June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2002, and June 30, 2001

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**Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2002, and June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Volunteer State Community College was approved by the State Board of Education as one of Tennessee’s ten community colleges in 1969. The college moved to its present 100-acre campus in 1972. In June 1973, Volunteer State Community College graduated its first class.

In January 1984, Volunteer State Community College became the lead institution for Tennessee Technology Center at Hartsville and Tennessee Technology Center at Livingston. Under the lead institution agreement, Volunteer State Community College performs the accounting and reporting functions for these centers.

The college currently offers the Associate of Arts Degree, the Associate of Science Degree, and the Associate of Applied Science Degree.

ORGANIZATION

The governance of Volunteer State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief

administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2002, and June 30, 2001. The financial statements for the year ended June 30, 2002, are presented on an entity-wide perspective as required by the implementation of Governmental Accounting Standards Board Statements 34 and 35. The financial statements for the year ended June 30, 2001, are presented on the fund-group perspective that was previously required. Volunteer State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2002, and June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



**STATE OF TENNESSEE
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DIVISION OF STATE AUDIT
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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

April 17, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2002, and June 30, 2001, and have issued our report thereon dated April 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 11, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*. As discussed in Note 12, during the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The Honorable John G. Morgan
April 17, 2003
Page Two

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

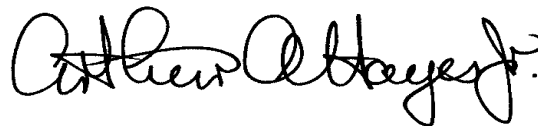
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/th



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

April 17, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Volunteer State Community College, as of June 30, 2002, and the revenues, expenses, and changes in net assets and the cash

The Honorable John G. Morgan
April 17, 2003
Page Two

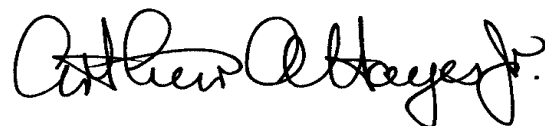
flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2003, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/th

Volunteer State Community College Management's Discussion and Analysis

This section of Volunteer State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Volunteer State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

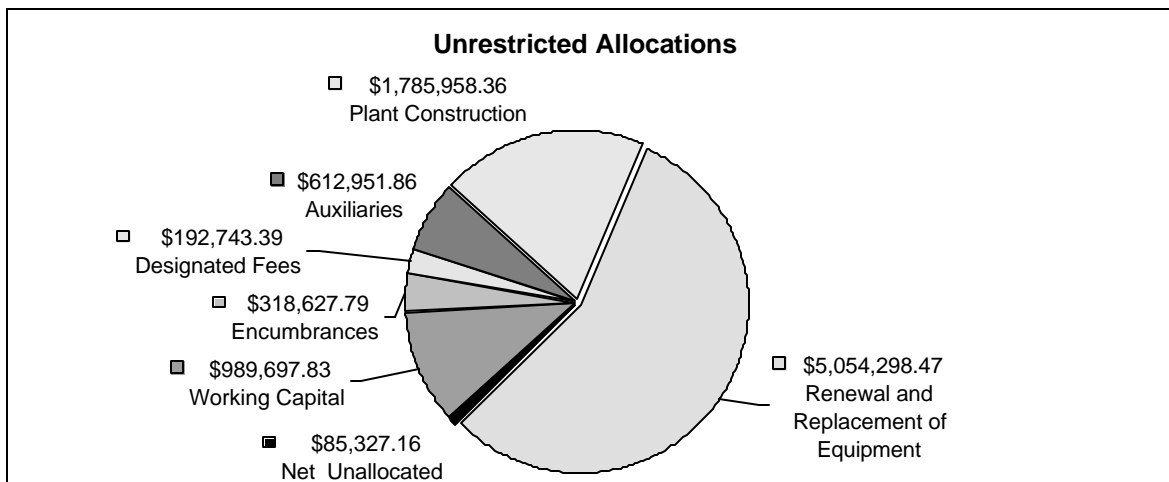
Statement of Net Assets (in thousands of dollars)

	<u>2002</u>
Assets:	
Current assets	\$ 9,685
Capital assets, net	20,141
Other assets	6,946
Total Assets	\$ 36,772
 Liabilities:	
Current liabilities	\$ 6,812
Noncurrent liabilities	591
Total Liabilities	\$ 7,403
 Net Assets:	
Invested in capital assets, net of related debt	\$ 20,141
Restricted – expendable	91
Restricted – nonexpendable	97
Unrestricted	9,040
Total Net Assets	\$ 29,369

- The largest asset in the current assets category is cash in the amount of \$7,016,527. Included in the cash is approximately \$2,874,955 that Volunteer State is holding as custodian for others such as student organizations, the Tennessee Technology Centers at Livingston and Hartsville, and the Volunteer State Community College Foundation. Also included in cash is approximately \$634,000 that has been generated by auxiliary enterprises and presently allocated for auxiliary enterprises. Additionally, about \$50,000 of the cash has been designated to pay current liabilities related to the acquisition of plant assets.
- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, and library holdings. The land has a book value of \$1,116,502. The main campus in Gallatin consists of 14 primary buildings. The VSCC Center at Livingston consists of one building. The college has no debt outstanding related to the acquisition or renovation of any property. The buildings have a net book value of \$12,030,303. The equipment has a net book value of \$1,224,540. Projects still in progress include the construction of a new health sciences building, renovation of all or parts of three buildings, infrastructure improvements for chilled water lines and sewer lines, and improvements to the campus exterior lighting. Projects in progress have a book value of \$3,438,019. Other improvements have a net book value of \$1,770,734. Library holdings have a net book value of \$560,920.
- Other assets consist primarily of cash. Approximately \$6,840,257 of the cash has been designated for the future renewal and replacement of equipment and for various capital projects. Additionally, \$97,286 of the cash is for restricted and nonexpendable endowments.

- Current liabilities consist primarily of deposits held in custody for others (\$4,156,077), accrued liabilities (\$1,388,871), deferred revenue (\$576,267), compensated absences (\$437,538), and accounts payable (\$240,373). The deposits held in custody for others are from the Volunteer State Community College Foundation, the Tennessee Technology Centers at Livingston and Hartsville, student organizations, and non-institutional scholarship sources. Accrued liabilities consist primarily of accrued salaries, benefits, and other payroll withholdings payable. Most of the accrued salaries are the result of faculty contracts that begin in August and end in May but are paid over a 12-month period. Thus, one month of pay and related benefits is accrued at June 30. Also, most of the compensation for summer school instruction is paid by Volunteer State in July and August. However, a portion of the compensation is earned before June 30 and thus recorded as an accrued liability at June 30. Also, summer semester classes normally begin in May and end in August. Revenues that are collected before June 30 but that are earned after June 30 are recorded as deferred revenue. Additionally, employees of the college are permitted to accrue and carry forward vacation time. Based on historical trends, the portion of the accumulated vacation time at June 30 that is estimated to be used during the next fiscal year plus related benefits is accrued as a current liability. Accounts payable are generated through normal operating activities and are for goods or services received by June 30 but not paid as of June 30.
- The remaining portion of the accumulated vacation time is accrued as a noncurrent liability and is for the most part the only noncurrent liability of the college.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment, capital projects, designated fees, encumbrances, and working capital. The following graph shows the allocations:



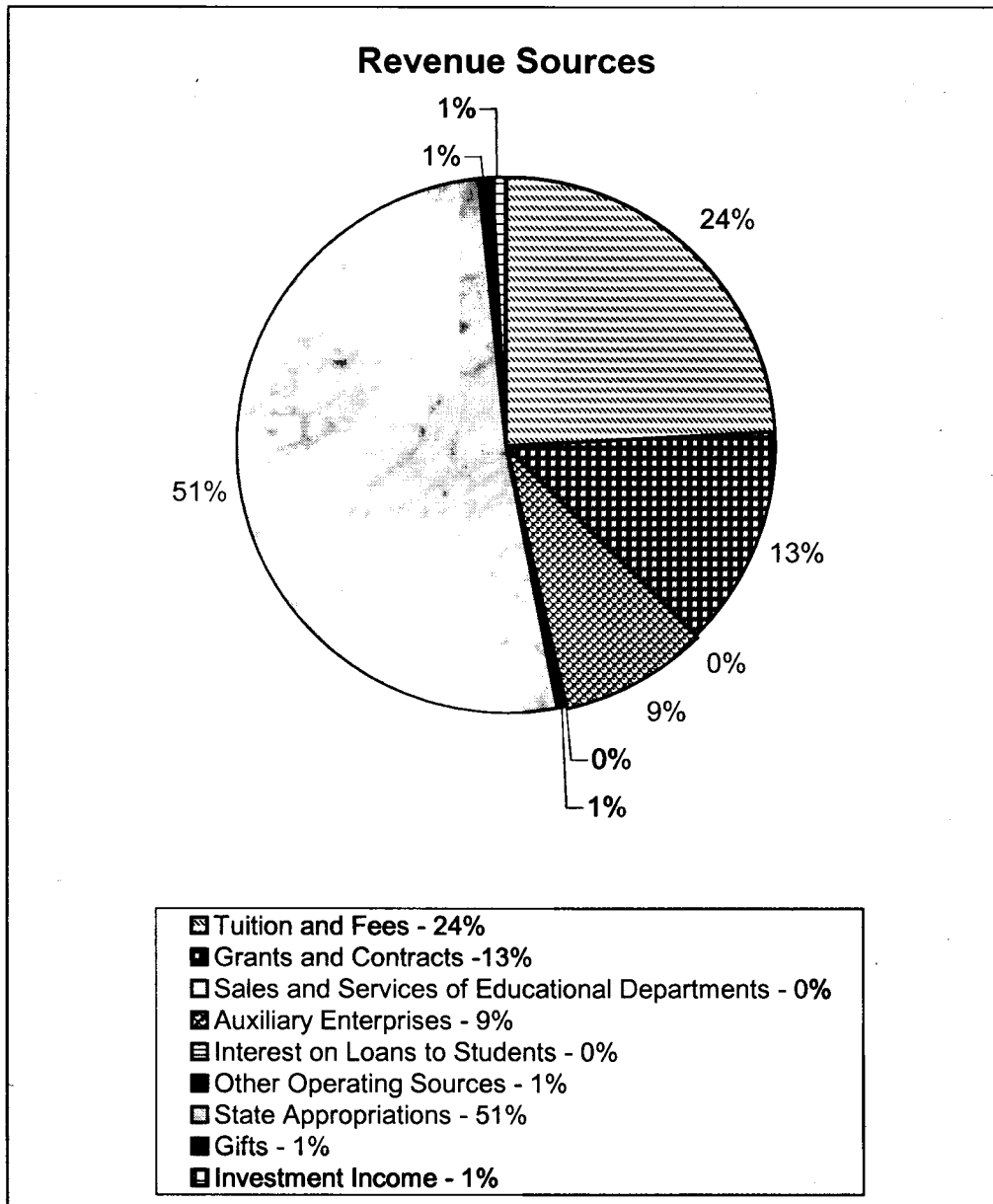
The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)		<u>2002</u>
Operating revenues:		
Net tuition and fees	\$	7,495
Auxiliary		2,769
Grants and contracts		4,064
Other		177
Total operating revenues		14,505
Operating expenses		30,598
Operating loss		(16,093)
Nonoperating revenues and expenses:		
State appropriations		15,862
Gifts		277
Investment income		271
Total nonoperating revenues and expenses		16,410
Income (loss) before other revenues, expenses, gains, or losses		317
Other revenues, expenses, gains, or losses:		
Capital appropriations		5,142
Additions to permanent endowments		2
Other		5
Total revenues, expenses, gains, or losses		5,149
Increase (decrease) in net assets		5,466
Net assets at beginning of year, as originally reported		34,765
Cumulative effect of changes in accounting principle		(10,862)
Net assets at beginning of year, restated		23,903

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2002.



- State appropriations are the largest single source of revenue received by the college. State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly appropriates state appropriations. The primary source of revenue for the State of Tennessee is sales tax collections. State appropriations account for about 51% of the college's total operating and nonoperating revenues.

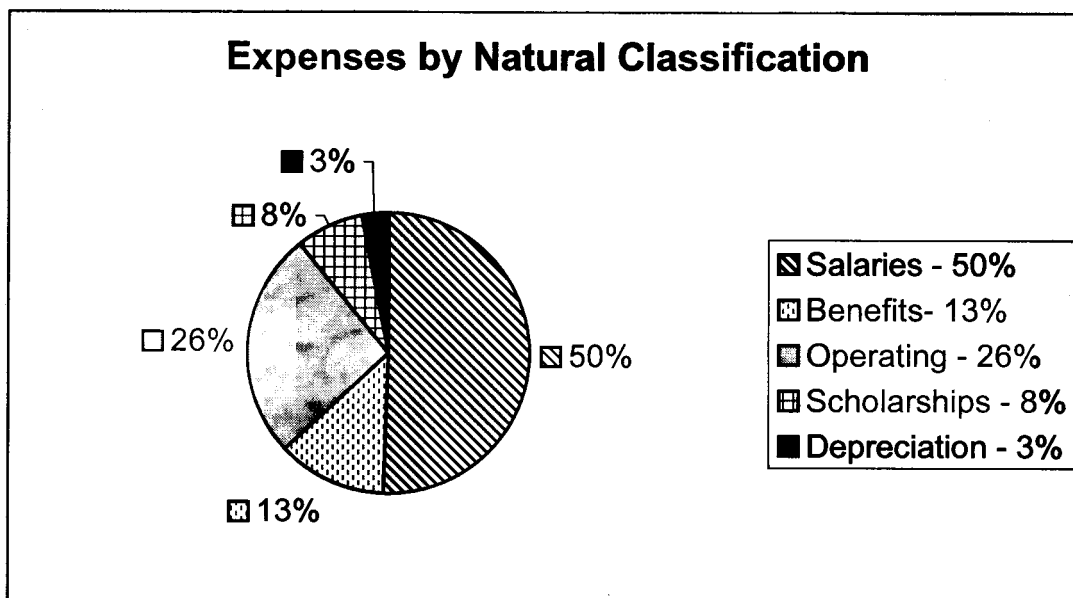
- The next largest source of revenue is from student tuition and fees. Tuition and fees (net of scholarship allowances of \$2,150,559) account for approximately 24% of the college's total operating and nonoperating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees may fluctuate depending upon enrollments.
- Grants and contracts account for approximately 13% of the college's total operating and nonoperating revenues. Approximately 82% of the grants and contracts revenue is restricted for student aid programs such as Pell Grant or SEOG.
- Approximately 9% of the college's total operating and nonoperating revenues are generated from gross revenues of the auxiliary enterprises. The college's bookstore was self-operated until June 2002. The college's food service operations are contracted to a third party from whom the college received commissions.
- The remaining 3% of revenues are from various miscellaneous sources such as gifts, investment income, etc.

Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification (in thousands of dollars)

Salaries	\$ 15,459
Benefits	3,846
Operating	7,949
Scholarships	2,391
Depreciation	953
Total	\$ 30,598

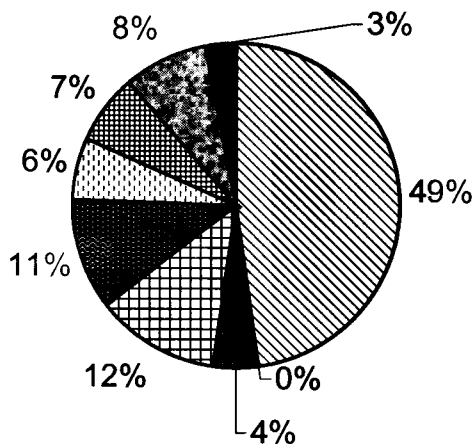


- Salary and related benefits together comprise approximately 63% of the college's expenses.
- Operating expenses, which account for approximately 26% of the total expenses, consist of expenditures for such items as travel, supplies, utilities, communications and shipping, maintenance and repairs, printing, professional and administrative services, rental and insurance, and stores for resale.
- Scholarship expenses are primarily attributable to the federal Pell grant and SEOG programs, TSAA (Tennessee Student Assistance Awards), and private scholarships.
- Depreciation expense was recognized for buildings (\$419,285), equipment (\$293,158), other improvements (\$125,476), and library holdings (\$114,986).

Program Classification (in thousands of dollars)

Instruction	\$ 14,616
Public Service	128
Academic Support	1,238
Student Services	3,707
Institutional Support	3,417
Maintenance and Operation	1,869
Scholarships and Fellowships	2,107
Auxiliary	2,563
Depreciation	953
Total	\$ 30,598

Expenses by Program



	Instruction - 49%
	Public Service - 0%
	Academic Support - 4%
	Student Services - 12%
	Institutional Support - 11%
	Maintenance and Operation - 6%
	Scholarships and Fellowships - 7%
	Auxiliary - 8%
	Depreciation - 3%

- The college follows the policies set forth by NACUBO (National Association of College and University Business Officers) for determining functional classifications of expenditures.
- Expenses in direct support of the instructional programs account for approximately 49% of the total expenses.
- Expenses for academic support are approximately 4% of total expenses. The major expenditures in this function are for library services.
- Student services expenses account for about 12% of total expenses. This primarily includes costs for the administration of the student financial aid programs, admissions and records, counseling/advising services, athletics, and other student services administration.

- Institutional support functions expenses amounted to approximately 11% of total expenses. This function includes expenses for such things as executive and fiscal management, public relations and development, safety and security, purchasing, personnel administration, etc.
- Maintenance and operation costs consist primarily of expenses for the general upkeep of the buildings and grounds. Also, utility costs are included in this function. Costs for maintenance and operation account for 6% of total expenses.
- Approximately 7% of total expenses are for scholarships and grants. Of those expenditures for scholarships and grants, 92% are from restricted sources.
- Most of the expenses for auxiliary enterprises were for cost of goods sold and other costs of operating the bookstore.
- Depreciation was previously discussed during the analysis of natural classifications.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows (in thousands of dollars)

	<u>2002</u>
Cash provided (used) by:	
Operating activities	\$ (15,169)
Non-capital financing activities	15,997
Investing activities	270
Capital and related financing activities	(501)
Net increase (decrease) in cash	597
Cash, beginning of year	13,357
Cash, end of year	\$ 13,954

- The major sources of cash flows for operating activities include tuition and fees (\$7,536,698), grants and contracts (\$4,269,390), and bookstore sales (\$2,310,815). Most of the cash flows from grants and contracts were restricted in nature. The major uses of cash flows for operating activities include payments for salaries and benefits (\$19,075,276), payments to suppliers and vendors for operational items (\$7,938,247), and payments for scholarships (\$2,391,253).

- The primary sources of cash from non-capital financing activities were state appropriations (\$15,704,520) and gifts and grants received for other than endowment purposes (\$277,329). Cash flows from non-capital financing activities were used to help finance the operating activities of the college.
- Cash flows from investing activities are from interest income.
- Cash flows provided and used by capital and related financing activities include \$5,142,456 received for capital-state appropriations and \$5,640,479 used for the purchase of capital assets and construction. The General Assembly of the State of Tennessee, in addition to normal operating state appropriations, appropriates funds for capital acquisitions and capital maintenance. During the year, the college received and expended funds for the following projects: construction of a new health sciences building, renovation of seven buildings used primarily for instructional programs, infrastructure improvements, and the purchase of land and a building that were previously leased at our Livingston Center. In addition to the expenditures for real property, equipment purchases were included in this category of cash flows.
- For the year ended June 30, 2002, the liquidity of the college improved. Overall, the cash position of the college increased by \$597,000. The improvement in the overall cash position can partly be attributed to a conservative spending plan due to uncertainties surrounding state revenue collections.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2002, Volunteer State Community College had \$20,141,020 invested in capital assets, net of accumulated depreciation of \$9,667,352. Depreciation charges totaled \$952,905 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)

	<u>2002</u>
Land	\$ 1,116
Land improvements and infrastructure	\$ 1,771
Buildings	\$ 12,030
Equipment	\$ 1,225
Library holdings	\$ 561
Projects in progress	\$ 3,438

During the year, the college completed or had in progress several capital projects. The college purchased the land and building in Livingston, Tennessee, that had previously been leased for our

Livingston Center. Also, the renovations of three instructional buildings were completed. Projects still in progress include the construction of a new health sciences building, renovation of all or parts of three buildings, and infrastructure improvements for chilled water lines and sewer lines. All of the projects were funded by capital state appropriations. In addition to the projects funded by capital state appropriations, a campus lighting project (which is still in progress) was funded with college funds allocated for that purpose.

It is expected that all capital projects in progress will be completed during the next fiscal year and that the same funding sources will be used for the expenditures. Additionally, portions of one other building will be renovated next fiscal year. The funding source will be capital state appropriations.

More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

Debt Administration

At June 30, 2002, the college had no debt outstanding.

Economic Factors That Will Affect the Future

During the next fiscal year, state appropriations are not expected to materially increase. However, a 7.5% tuition increase was approved.

**Tennessee Board of Regents
Volunteer State Community College
Statement of Net Assets
June 30, 2002**

ASSETS

Current assets:

Cash (Notes 2 and 3)	\$ 7,016,527.54
Short-term investments (Note 4)	1,273,989.92
Accounts, notes, and grants receivable (net) (Note 5)	1,373,682.92
Inventories	3,799.31
Prepaid expenses and deferred charges	140.00
Accrued interest receivable	1,828.94
Other assets	14,624.41
Total current assets	<u>9,684,593.04</u>

Noncurrent assets:

Cash (Notes 2 and 3)	6,937,473.75
LGIP deposits - capital projects	68.93
Capital assets (net) (Note 6)	20,141,020.12
Other assets	8,300.53
Total noncurrent assets	<u>27,086,863.33</u>
Total assets	<u>36,771,456.37</u>

LIABILITIES

Current liabilities:

Accounts payable	240,373.94
Accrued liabilities	1,388,871.02
Student deposits	144.00
Deferred revenue	576,267.43
Compensated absences (Note 7)	437,538.69
Deposits held in custody for others	4,156,076.85
Other liabilities	12,546.53
Total current liabilities	<u>6,811,818.46</u>

Noncurrent liabilities:

Compensated absences (Note 7)	590,495.12
U.S. Government grants refundable (Note 7)	391.19
Total noncurrent liabilities	<u>590,886.31</u>
Total liabilities	<u>7,402,704.77</u>

NET ASSETS

Invested in capital assets, net of related debt	20,141,020.12
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	97,285.85
Expendable:	
Scholarships and fellowships	24,874.67
Instructional department uses	21,219.88
Loans	161.60
Other	44,584.62
Unrestricted (Note 8)	9,039,604.86
Total net assets	<u>\$ 29,368,751.60</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Volunteer State Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2002**

REVENUES

Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$2,150,559.49)	\$ 7,495,096.53
Governmental grants and contracts	4,063,440.86
Sales and services of educational departments	7,795.50
Auxiliary enterprises:	
Bookstore	2,732,968.74
Food service	35,726.48
Other auxiliaries	66.05
Interest earned on loans to students	737.76
Other operating revenues	168,888.60
Total operating revenues	<u>14,504,720.52</u>

EXPENSES

Operating expenses:	
Salaries and wages	15,458,331.78
Benefits	3,845,939.66
Utilities, supplies, and other services	7,949,156.36
Scholarships and fellowships	2,391,253.39
Depreciation expense	952,905.42
Total operating expenses	<u>30,597,586.61</u>
Operating income (loss)	<u>(16,092,866.09)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	15,861,620.00
Gifts	277,329.60
Investment income	270,559.83
Net nonoperating revenues	<u>16,409,509.43</u>
Income before other revenues, expenses, gains, or losses	<u>316,643.34</u>

Capital appropriations	5,142,455.60
Additions to permanent endowments	1,784.00
Other	5,350.03
Total other revenues, expenses, gains, or losses	<u>5,149,589.63</u>
Increase (decrease) in net assets	<u>5,466,232.97</u>

NET ASSETS

Net assets - beginning of year, as originally reported	34,764,864.55
Cumulative effect of changes in accounting principle (Note 11)	
Adoption of capitalization criteria for buildings and additions	(1,822,055.05)
Adoption of depreciation for capital assets	(9,141,614.85)
Deferred revenue recognition	370,043.89
Other	(268,719.91)
Net assets - beginning of year, as restated	<u>23,902,518.63</u>
Net assets - end of year	<u>\$ 29,368,751.60</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Volunteer State Community College
Statement of Cash Flows
for the Year Ended June 30, 2002**

Cash flows from operating activities:

Tuition and fees	\$ 7,536,698.74
Grants and contracts	4,269,389.65
Sales and services of educational activities	7,795.50
Payments to suppliers and vendors	(7,938,247.05)
Payments to employees	(15,242,894.54)
Payments for benefits	(3,832,382.22)
Payments for scholarships and fellowships	(2,391,253.39)
Interest earned on loans to students	737.76
Auxiliary enterprise charges:	
Bookstore	2,310,814.98
Food services	43,886.74
Other auxiliaries	66.05
Other receipts (payments)	66,138.92
Net cash flows provided (used) by operating activities	<u>(15,169,248.86)</u>

Cash flows from non-capital financing activities:

State appropriations	15,704,520.00
Gifts and grants received for other than capital or endowment purposes	277,329.60
Private gifts for endowment purposes	1,784.00
Changes in deposits held for others	7,296.93
Other non-capital financing receipts (payments)	6,894.43
Net cash flows provided (used) by non-capital financing activities	<u>15,997,824.96</u>

Cash flows from capital and related financing activities:

Capital - state appropriation	5,142,455.60
Purchase of capital assets and construction	(5,640,478.75)
Other capital and related financing receipts (payments)	(2,861.78)
Net cash flows provided (used) by capital and related financing activities	<u>(500,884.93)</u>

Cash flows from investing activities:

Income on investments	269,711.34
Net cash provided (used) by investing activities	<u>269,711.34</u>

Net increase (decrease) in cash	597,402.51
Cash - July 1, 2001	13,356,667.71
Cash - June 30, 2002	<u>\$ 13,954,070.22</u>

**Tennessee Board of Regents
Volunteer State Community College
Statement of Cash Flows
for the Year Ended June 30, 2002**

**Reconciliation of operating loss to net cash
provided (used) by operating activities:**

Operating loss	\$ (16,092,866.09)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	952,905.42
Change in assets and liabilities:	
Receivables, net	(308,446.51)
Inventories	449,138.02
Prepaid/deferred items	3,343.00
Other assets	(277.30)
Accounts payable	(410,648.68)
Accrued liabilities	143,048.88
Deferred revenues	5,414.45
Deposits	44.00
Compensated absences	86,234.17
Other	2,861.78
Net cash provided (used) by operating activities	<u>\$ (15,169,248.86)</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements
June 30, 2002**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; and (5) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

LGIP Deposit – Capital Projects

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, \$50,000 for additions and improvements to land, buildings, or infrastructure, and \$5,000 for equipment.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Volunteer State Community College Foundation

The college is the sole beneficiary of the Volunteer State Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The college handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the college's statement of net assets.

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Nonexpendable restricted net assets – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

Comparative Data

Comparative financial statements are not presented as the college implemented GASB Statements 34, 35, 37, and 38, and comparative statements are not required. Certain amounts presented in prior years' data have been reclassified to be consistent with the current year's presentation.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2002, cash consisted of \$2,917,862.35 in bank accounts, \$6,740.00 of petty cash on hand, and \$11,029,398.94 in the State of Tennessee Local Government Investment Pool administered

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

by the State Treasurer. For purposes of the Statement of Cash Flows, the college considers LGIP deposits - capital projects to be a part of cash.

NOTE 3. DEPOSITS

Some of the college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2002, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was \$2,901,790.18, and the bank balance including accrued interest was \$3,538,308.71. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

At June 30, 2002, the carrying amount of the college's deposits was \$2,917,862.35, and the bank balance including accrued interest was \$3,552,609.39. Of the bank balance, \$3,552,609.39 was category 1. During the year ended June 30, 2002, the institution had

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

uncollateralized deposits ranging from \$12,356.55 to \$22,587.67 for 3 days in September 2001; \$1,390.35 to \$76,645.35 for 22 days in January 2002; and \$177.34 to \$9,400.73 for 7 days in April 2002.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Volunteer State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The college's/foundation's investments are categorized below to indicate the level of risk assumed by the college/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the college/foundation or its agent in the college's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

counterparty's/counterparties' trust department or agent in the college's/ foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the college's/foundation's name.

	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$ 408,229.35
Corporate stocks	73,245.76
Category 2 and 3:	-
Investments not susceptible to credit risk categorization:	
Mutual funds	<u>792,514.81</u>
Total investments on the statement of net assets	<u>\$ 1,273,989.92</u>

NOTE 5. RECEIVABLES

Receivables at June 30, 2002, included the following:

Student accounts receivable	\$ 400,021.33
Grants receivable	218,210.20
	Other receivables <u>995,078.21</u>
Subtotal	1,613,309.74
Less allowance for doubtful accounts	<u>(239,626.82)</u>
Total receivables	<u>\$ 1,373,682.92</u>

Federal Perkins Loan Program funds at June 30, 2002, included the following:

Perkins loans receivable	\$ 23,241.93
Less allowance for doubtful accounts	<u>(23,241.93)</u>
Total	<u>\$ -</u>

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 1,069,399.00	\$ 47,102.86	\$ -	\$ -	\$ 1,116,501.86
Land improvements and infrastructure	2,124,434.84	501,454.04	(32,213.48)	-	2,593,675.40
Buildings	16,665,037.36	1,684,024.31	284,799.86	31,145.54	18,602,715.99
Equipment	2,817,389.38	447,771.30	-	269,461.93	2,995,698.75
Library holdings	3,036,682.00	128,760.87	-	2,103,682.27	1,061,760.60
Projects in progress	<u>737,200.81</u>	<u>2,953,404.96</u>	<u>(252,586.38)</u>	<u>-</u>	<u>3,438,019.39</u>
Total	<u>26,450,143.39</u>	<u>5,762,518.34</u>	<u>-</u>	<u>2,404,289.74</u>	<u>29,808,371.99</u>
Less accum. depreciation:					
Land improvements and infrastructure	-	822,940.47	-	-	822,940.47
Buildings	-	6,572,412.59	-	-	6,572,412.59
Equipment	-	1,771,158.69	-	-	1,771,158.69
Library holdings	<u>-</u>	<u>500,840.12</u>	<u>-</u>	<u>-</u>	<u>500,840.12</u>
Total accum. depreciation	<u>-</u>	<u>9,667,351.87</u>	<u>-</u>	<u>-</u>	<u>9,667,351.87</u>
Capital assets, net	<u>\$26,450,143.39</u>	<u>\$(3,904,833.53)</u>	<u>\$ -</u>	<u>\$2,404,289.74</u>	<u>\$20,141,020.12</u>

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$ 941,799.64	\$ 86,234.17	\$ -	\$1,028,033.81	\$437,538.69
U.S. Government grant refundable	<u>391.19</u>	<u>-</u>	<u>-</u>	<u>391.19</u>	<u>-</u>
Total long-term liabilities	<u>\$ 942,190.83</u>	<u>\$ 86,234.17</u>	<u>\$ -</u>	<u>\$1,028,425.00</u>	<u>\$437,538.69</u>

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>Amount</u>
Working capital	\$ 989,697.83
Encumbrances	318,627.79
Designated fees	192,743.39
Auxiliaries	612,951.86
Plant construction	1,785,958.36
Renewal and replacement	<u>5,054,298.47</u>
Total	<u>\$ 8,954,277.70</u>

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 6.19% of annual

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2002, 2001, and 2000, were \$478,341.65, \$445,370.92, and \$373,057.10. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$519,278.04 for the year ended June 30, 2002, and \$468,882.35 for the year ended June 30, 2001. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) adoption of depreciation on capital assets; and (3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	\$ (1,822,055.05)
Adoption of depreciation on capital assets	\$ (9,141,614.85)
Deferred revenue recognition	\$ 370,043.89
Other	\$ (268,719.91)

NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state’s officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. Designations for casualty losses in the amount of \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were established in the state’s general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2002, the scheduled coverage for the college was \$34,934,100 for buildings and \$13,737,100 for contents.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$4,941,662.57 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

leases for real property were \$61,332.43 and for personal property were \$128,144.18 for the year ended June 30, 2002. All operating leases are cancelable at the lessee's option.

Construction in Progress – At June 30, 2002, outstanding commitments under construction contracts totaled \$5,017,396.80 for the former library renovation, the new health sciences building, the annex buildings renovation, the Pickel Building renovation, infrastructure additions, and other VSCC renovation projects of which \$4,951,646.12 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in no lawsuits.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

Functional Classification	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$ 9,038,847.45	\$2,106,453.53	\$3,396,030.33	\$ 74,279.93	\$ -	\$14,615,611.24
Public service	60,305.60	17,281.58	48,758.41	1,929.00	-	128,274.59
Academic support	1,481,940.50	375,616.19	(638,909.51)	19,697.18	-	1,238,344.36
Student services	1,827,356.78	529,608.30	1,211,498.10	138,708.08	-	3,707,171.26
Institutional support	2,077,225.10	528,700.71	767,098.16	43,556.79	-	3,416,580.76
Operation & maint.	745,164.56	238,673.14	884,674.74	-	-	1,868,512.44
Scholar. & fellow.	-	-	-	2,107,295.41	-	2,107,295.41
Auxiliary	227,491.79	49,606.21	2,280,006.13	5,787.00	-	2,562,891.13
Depreciation	-	-	-	-	952,905.42	952,905.42
Total	<u>\$15,458,331.78</u>	<u>\$3,845,939.66</u>	<u>\$7,949,156.36</u>	<u>\$2,391,253.39</u>	<u>\$ 952,905.42</u>	<u>\$30,597,586.61</u>



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

April 17, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheet of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Honorable John G. Morgan

April 17, 2003

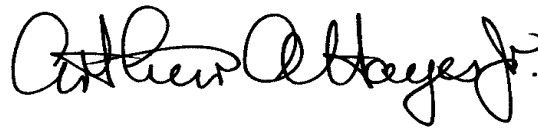
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Volunteer State Community College, as of June 30, 2001, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2003, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/th

**Tennessee Board of Regents
Volunteer State Community College
Balance Sheet
June 30, 2001**

ASSETS		LIABILITIES AND FUND BALANCES	
	<u>June 30, 2001</u>		<u>June 30, 2001</u>
Current Funds:		Current Funds:	
Unrestricted:		Unrestricted:	
General:		General:	
Cash (Notes 2 and 3)	\$ 3,708,966.29	Liabilities:	
Accrued interest receivable	980.45	Accounts payable	\$ 327,996.52
Accounts and notes receivable		Accrued liabilities	971,028.36
(net of allowance of \$323,880.90)	397,040.33	Deferred revenues	935,053.54
Inventories	3,179.02	Compensated absences	922,372.53
Due from restricted current funds	268,659.03	Other	5,652.10
Prepaid expenses	3,483.00	Total liabilities	<u>3,162,103.05</u>
Other assets	<u>8,023.23</u>	Fund balances:	
		Nondiscretionary allocations:	
		Allocation for working capital	199,205.46
		Allocation for encumbrances	729,222.70
		Allocation for designated fees	175,920.26
		Allocation for designated appropriations	940.28
		Discretionary allocations:	
		Allocation for subsequent budget	936,000.00
		Allocation for compensated absences	(922,372.53)
		Unallocated	109,312.13
		Total fund balances	<u>1,228,228.30</u>
Total general	<u>4,390,331.35</u>	Total general	<u>4,390,331.35</u>
Auxiliary enterprises:		Auxiliary enterprises:	
Cash (Notes 2 and 3)	892,657.88	Liabilities:	
Accounts and notes receivable		Accounts payable	3,230.83
(net of allowance of \$17,835.60)	90,057.20	Accrued liabilities	4,690.71
Inventories	<u>449,758.31</u>	Student deposits	100.00
		Compensated absences	19,427.11
		Total auxiliary liabilities	<u>27,448.65</u>
		Fund balances:	
		Nondiscretionary allocations:	
		Allocation for working capital	542,515.51
		Allocation for encumbrances	1,324.18
		Discretionary allocations:	
		Contingency allocation	121,903.13
		Allocation for compensated absences	(19,427.11)
		Unallocated	758,709.03
		Total fund balances	<u>1,405,024.74</u>
Total auxiliary enterprises	<u>1,432,473.39</u>	Total auxiliary enterprises	<u>1,432,473.39</u>
Total unrestricted	<u>5,822,804.74</u>	Total unrestricted	<u>5,822,804.74</u>
Restricted		Restricted	
Accounts and grants receivable	<u>417,590.08</u>	Liabilities:	
		Accounts payable	50,494.34
		Accrued liabilities	1,774.35
		Due to unrestricted current funds	268,659.03
		Deferred revenue	5,843.32
		Total restricted liabilities	<u>326,771.04</u>
Total restricted	<u>417,590.08</u>	Fund balances	<u>90,819.04</u>
		Total restricted	<u>417,590.08</u>
Total current funds	<u>\$ 6,240,394.82</u>	Total current funds	<u>\$ 6,240,394.82</u>

**Tennessee Board of Regents
Volunteer State Community College
Balance Sheet
June 30, 2001**

ASSETS		LIABILITIES AND FUND BALANCES	
	<u>June 30, 2001</u>		<u>June 30, 2001</u>
Loan funds:		Loan funds:	
Cash (Notes 2 and 3)	<u>\$ 552.79</u>	Fund balances:	
		U.S. Government grants refundable	\$ 391.19
		Institutional funds	43.47
		Restricted matching	118.13
		Restricted other	<u>118.13</u>
Total loan funds	<u>\$ 552.79</u>	Total loan funds	<u>\$ 552.79</u>
Endowment and similar funds:		Endowment and similar funds:	
Cash (Notes 2 and 3)	<u>\$ 94,515.33</u>	Fund balance:	
		Endowment	<u>\$ 94,515.33</u>
Total endowment and similar funds	<u>\$ 94,515.33</u>	Total endowment and similar funds	<u>\$ 94,515.33</u>
Plant funds:		Plant funds:	
Unexpended:		Unexpended:	
Cash (Notes 2 and 3)	\$ 1,880,582.90	Accounts payable	\$ 114,358.96
LGIP deposit-capital projects	<u>43,184.21</u>	Fund Balances	
		Unrestricted (Note 5)	<u>1,809,408.15</u>
Total unexpended	<u>1,923,767.11</u>	Total unexpended	<u>1,923,767.11</u>
Renewals and replacements:		Renewals and replacements:	
Cash (Notes 2 and 3)	3,873,842.52	Accounts payable	188,347.68
Accounts receivable	<u>677.97</u>	Fund balance:	
		Unrestricted (Note 5)	<u>3,686,172.81</u>
Total renewals and replacements	<u>3,874,520.49</u>	Total renewals and replacements	<u>3,874,520.49</u>
Investment in plant:		Investment in plant:	
Land	1,069,399.00	Net investment in plant	<u>26,450,143.39</u>
Buildings	16,665,037.36		
Other improvements	2,124,434.84		
Equipment	2,817,389.38		
Library books	2,401,632.00		
Other library holdings	635,050.00		
Construction in progress	<u>737,200.81</u>		
Total investment in plant	<u>26,450,143.39</u>	Total investment in plant	<u>26,450,143.39</u>
Total plant funds	<u>\$ 32,248,430.99</u>	Total plant funds	<u>\$ 32,248,430.99</u>
Agency funds:		Agency funds:	
Foundation:		Foundation:	
Cash (Notes 2 and 3)	\$ 1,199,883.46	Accounts payable	\$ 82.50
Investments (Note 4)	1,118,368.45	Deposits held in custody for others	2,333,415.39
Other assets	<u>15,245.98</u>		
Nonfoundation:		Nonfoundation:	
Cash (Notes 2 and 3)	1,662,482.33	Accounts payable	4,888.53
Accounts receivable	<u>2,770.83</u>	Deposits held in custody for others	<u>1,660,364.63</u>
Total agency funds	<u>\$ 3,998,751.05</u>	Total agency funds	<u>\$ 3,998,751.05</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Volunteer State Community College
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001**

	Current Funds			Endowment and Similar Funds	Plant Funds		
	Unrestricted	Restricted	Loan Funds		Unexpended	Renewals and Replacements	Investment in Plant
REVENUES AND OTHER ADDITIONS							
Current fund revenues	\$ 23,466,028.72	\$ 43,345.25	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprises revenues	2,438,062.61	-	-	-	-	-	-
State appropriations	-	96,720.00	-	-	409,273.37	-	-
Federal grants and contracts	-	2,976,834.76	-	-	-	-	-
State grants and contracts	-	194,219.26	-	-	-	-	-
Private gifts, grants, and contracts	-	238,248.53	-	4,479.47	-	-	-
Investment income	-	57.33	-	2,118.75	127,094.40	238,024.66	-
Interest on loans receivable	-	-	704.47	-	-	-	-
Endowment income	-	3,173.99	-	-	-	-	-
Expended for plant facilities (including \$323,982.38 charged to current fund expenditures)	-	-	-	-	-	-	1,102,945.92
Other (Note 8)	-	1,008.39	-	-	-	-	25,117.00
Total revenues and other additions	<u>25,904,091.33</u>	<u>3,553,607.51</u>	<u>704.47</u>	<u>6,598.22</u>	<u>536,367.77</u>	<u>238,024.66</u>	<u>1,128,062.92</u>
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	23,178,443.56	3,530,260.55	-	-	-	-	-
Auxiliary enterprises expenditures	2,264,337.22	-	-	-	-	-	-
Indirect cost recoveries	-	9,150.72	-	-	-	-	-
Refund to grantors	-	14,158.21	-	-	-	-	-
Provision for doubtful accounts	-	-	704.47	-	-	-	-
Expended for plant facilities	-	-	-	-	656,155.34	122,808.20	-
Expended for non-capital items	-	-	-	-	103,409.85	783,080.68	-
Disposal of plant facilities	-	-	-	-	-	-	75,397.30
Library holding revaluation	-	-	-	-	-	-	56,515.40
Total expenditures and other deductions	<u>25,442,780.78</u>	<u>3,553,569.48</u>	<u>704.47</u>	<u>-</u>	<u>759,565.19</u>	<u>905,888.88</u>	<u>131,912.70</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Non-mandatory							
Renewals and replacements	(234,437.72)	-	-	-	-	234,437.72	-
Total transfers	<u>(234,437.72)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>234,437.72</u>	<u>-</u>
Net increases (decreases) for the year	<u>226,872.83</u>	<u>38.03</u>	<u>-</u>	<u>6,598.22</u>	<u>(223,197.42)</u>	<u>(433,426.50)</u>	<u>996,150.22</u>
Fund balances at beginning of year	2,406,380.21	90,781.01	552.79	87,917.11	2,032,605.57	4,119,599.31	25,453,993.17
Fund balances at end of year	<u>\$ 2,633,253.04</u>	<u>\$ 90,819.04</u>	<u>\$ 552.79</u>	<u>\$ 94,515.33</u>	<u>\$ 1,809,408.15</u>	<u>\$ 3,686,172.81</u>	<u>\$ 26,450,143.39</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Volunteer State Community College
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2001**

	Current Year		
	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 7,723,112.03	\$ 43,345.25	\$ 7,766,457.28
State appropriations	15,297,000.00	96,720.00	15,393,720.00
Federal grants and contracts	15,725.72	2,976,834.76	2,992,560.48
State grants and contracts	-	194,219.26	194,219.26
Private gifts, grants and contracts	64,344.65	238,248.53	302,593.18
Sales and services of educational activities	8,274.10	-	8,274.10
Sales and services of auxiliary enterprises	2,438,062.61	-	2,438,062.61
Endowment income	-	3,173.99	3,173.99
Other sources	357,572.22	1,065.72	358,637.94
Total current revenues	<u>25,904,091.33</u>	<u>3,553,607.51</u>	<u>29,457,698.84</u>
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	12,746,367.95	275,433.87	13,021,801.82
Public service	143,894.44	292,558.27	436,452.71
Academic support	1,600,986.94	3,256.99	1,604,243.93
Student services	3,221,328.56	219,735.10	3,441,063.66
Institutional support	3,209,842.96	6,122.70	3,215,965.66
Operation and maintenance of plant	1,870,099.05	-	1,870,099.05
Scholarships and fellowships	385,923.66	2,733,153.62	3,119,077.28
Total educational and general expenditures	<u>23,178,443.56</u>	<u>3,530,260.55</u>	<u>26,708,704.11</u>
Nonmandatory transfer:			
Renewals and replacements	200,000.00	-	200,000.00
Total educational and general expenditures and transfers	<u>23,378,443.56</u>	<u>3,530,260.55</u>	<u>26,908,704.11</u>
Auxiliary enterprises:			
Expenditures	2,264,337.22	-	2,264,337.22
Nonmandatory transfer:			
Renewals and replacements	34,437.72	-	34,437.72
Total auxiliary enterprises	<u>2,298,774.94</u>	<u>-</u>	<u>2,298,774.94</u>
Total expenditures and transfers	<u>25,677,218.50</u>	<u>3,530,260.55</u>	<u>29,207,479.05</u>
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Refund to grantors	-	(14,158.21)	(14,158.21)
Indirect cost recoveries	-	(9,150.72)	(9,150.72)
Net increase in fund balances	<u>\$ 226,872.83</u>	<u>\$ 38.03</u>	<u>\$ 226,910.86</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements
June 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include bookstore, cafeteria, and vending operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

LGIP Deposit – Capital Projects

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Interest Costs

The college has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

Volunteer State Community College Foundation

The college is the sole beneficiary of the Volunteer State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are

**Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

Federal Direct Loan Program

The college participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the college. The college acts as an agent for the U.S. government in disbursing funds to students.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2001, cash consisted of \$1,274,890.33 in bank accounts, \$6,740.00 of petty cash on hand, and \$12,031,853.17 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

NOTE 3. DEPOSITS

Some of the college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2001, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was \$1,254,068.78, and the bank balance including accrued interest was \$2,287,184.92. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral

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Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

At June 30, 2001, the carrying amount of the college's deposits was \$1,274,890.33, and the bank balance including accrued interest was \$2,300,723.10. Of the bank balance, \$2,300,723.10 was category 1. During the year ended June 30, 2001, the college had uncollateralized deposits of \$16,541.53 for 2 days in August 2000; \$23,362.47 to \$49,586.58 for 21 days in September 2000; \$18,486.78 to \$20,893.38 for 8 days in October 2000; \$3,965.60 to \$5,982.72 for 2 days in January 2001; and \$338.82 to \$816.70 for 4 days in April 2001.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments

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of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Volunteer State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The college's/foundation's investments are categorized below to indicate the level of risk assumed by the college/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the college/foundation or its agent in the college's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the college's/foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the college's/foundation's name.

	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$ 589,855.49
Corporate stocks	74,729.60
Category 2 and 3:	-
Investments not susceptible to credit risk categorization:	
Mutual funds	<u>453,783.36</u>
Total investments on the balance sheet	<u>\$1,118,368.45</u>

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$89,156.23 for unexpended plant and \$41,744.00 for renewals and replacements.

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NOTE 6. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$445,370.92, \$373,057.10, and \$375,001.71. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend

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solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$468,882.35 for the year ended June 30, 2001, and \$442,813.09 for the year ended June 30, 2000. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 8. OTHER ADDITIONS AND DEDUCTIONS

The following amounts are included as "other additions" and "other deductions" on the Statement of Changes in Fund Balances:

Other Additions

<u>Restricted</u>	
Prior year paybacks	\$ 1,008.39
Valuation adjustment for trade-in	\$25,117.00

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NOTE 9. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the college was \$33,545,100 for buildings and \$13,662,800 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the

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ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$2,331,676.25 of federal financial assistance for students. These programs include, but are not limited to, Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$4,652,010.24 at June 30, 2001.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$67,712.09 and for personal property were \$144,776.52 for the year ended June 30, 2001. All operating leases are cancelable at the lessee's option.

Construction in Progress At June 30, 2001, outstanding commitments under construction contracts totaled \$734,173.34 for the former library renovation, the new health sciences building, the Pickel Building renovation, and other VSCC renovation projects of which \$703,420.52 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

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NOTE 12. PRIOR-YEAR RESTATEMENT

The college implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Prior period amounts were restated as noted below:

Exhibit F

<u>Fund</u>	<u>Account Title</u>	<u>Amount</u>
Restricted	Tuition and fees	\$ 13,610.48
Restricted	Federal grants and contracts	\$ 14,789.20
Restricted	State grants and contracts	\$ 256.50
Restricted	Private gifts, grants and contracts	\$ (24,784.58)
Restricted	Endowment income	\$ 288.61
Restricted	Other sources	\$ 394.12

NOTE 13. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, an amendment of GASB Statement No. 34*. As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the college is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the college to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes

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management's discussion and analysis, a statement of net assets or a balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the college to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the college's financial statements.